

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name COLON VILLAGE	County ST JOSEPH	Type VILLAGE	MuniCode
Opinion Date-Use Calendar Jul 21, 2008	Audit Submitted-Use Calendar Aug 13, 2008	Fiscal Year-Use Drop List	2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 594,330.00
General Fund Expenditure:	\$ 517,597.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 285,191.00
Governmental Activities Long-Term Debt (see instructions):	\$ 78,649.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name) MICHAEL	Last Name WILSON	Ten Digit License Number 1101017570		
CPA Street Address 127 W. CHICAGO RD	City STURGIS	State MI	Zip Code 49091	Telephone +1 (269) 651-3228
CPA Firm Name NORMAN & PAULSEN, P.C.	Unit's Street Address 110 N Blackstone	City COLON	LU Zip 49040	

VILLAGE OF COLON
ST. JOSEPH COUNTY, MICHIGAN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

March 31, 2008

VILLAGE OF COLON

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VILLAGE OF COLON

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Colon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Colon, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Colon management. Our responsibility is to express opinions on these financial statements based on our audit.

Norman & Paulsen, P.C.

Chartered Public Accountants

127 W. Chicago Road

Sturgis, MI 49091

Phone 651 3228

Fax 269 651 5446

E-mail

norman.paulsen@charter.net

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Other Location:

123 N. Main Street

Traverse City, MI 49603

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In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Colon, Michigan, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2008, on our consideration of the Village of Colon internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Terrell T. Norman (1941-1982)

July 21, 2008

Norman & Paulsen, P.C.

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of Colon financial performance provides an overview of the Village's financial activities for the fiscal year ended March 31, 2008. Please read it in conjunction with the Village's financial statements.

Financial Highlights

The Village's overall financial position decreased by \$15,951 during the fiscal year ended March 31, 2008, which represents 0.5 percent of the net asset position at the beginning of the year. Included in the Village's total net assets of \$3,381,548 are the Sewer Disposal System Fund net assets of \$1,376,261 and the Water Supply System Fund net assets of \$1,422,510. The Sewage Disposal System's net assets decreased by \$183,186 and the Water Supply System's net assets increased by \$72,854. The net asset decrease and net asset increase were primarily the result of a transfer of \$102,154 from the Sewer Fund to the Water Fund.

The Village's Governmental Funds reflected a total fund balance at March 31, 2008 of \$377,466, which was an increase of \$67,571 from the prior year end. Included in this increase was the General Fund which reflected an increase of \$76,733 and the Major Street and Local Street Funds which reflected a combined decrease of \$9,162.

The total Governmental Fund expenditures for the year ended March 31, 2008, amounted to \$662,377, of which \$242,230 (37 percent) was for public works; \$322,415 (49 percent) was for public safety; and \$73,466 (11 percent) was for general government.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)					
	Governmental Funds		Enterprise Funds		
	2008	2007	2008	2007	
Assets	\$ 448	\$ 355	\$ 4,973	\$ 5,233	
Liabilities	71	45	2,174	2,324	
Fund Equity					
Invested in capital assets, net of related debt	-	-	2,351	2,446	
Retained Earnings					
Restricted	-	-	66	66	
Unreserved	-	-	382	397	
Fund Balances					
Reserved	89	93	-	-	
Unreserved	288	217	-	-	
Total Fund Equity	\$ 377	\$ 310	\$ 2,799	\$ 2,909	

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Current and other assets	\$ 604	\$ 485	\$ 518	\$ 484
Capital assets	<u>128</u>	<u>132</u>	<u>4,455</u>	<u>4,644</u>
Total assets	732	617	4,973	5,128
Long-term debt outstanding	78	88	2,104	2,199
Other liabilities	<u>71</u>	<u>41</u>	<u>70</u>	<u>20</u>
Total liabilities	149	129	2,174	2,219
Net assets				
Invested in capital assets, net of related debt	50	44	2,351	2,446
Restricted	181	194	66	66
Unrestricted	<u>352</u>	<u>250</u>	<u>382</u>	<u>397</u>
Total net assets	<u>\$ 583</u>	<u>\$ 488</u>	<u>\$ 2,799</u>	<u>\$ 2,909</u>

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2008	2007	2008	2007
Revenue				
Taxes	\$ 420	\$ 366	\$ -	\$ -
Licenses and permits	10	9	-	-
State grants	215	218	-	-
Charges for services	59	52	450	390
Fines and forfeitures	4	6	-	-
Rents	-	-	22	22
Interest	5	5	9	9
Other	17	26	26	12
Total revenue	730	682	507	433
Program expenses				
General government	73	74	-	-
Public safety	323	294	-	-
Public works	242	283	-	-
Health and welfare	7	7	-	-
Recreation and cultural	3	2	-	-
Debt service	14	13	-	-
Sewer system	-	-	165	120
Water system	-	-	101	89
Depreciation	-	-	276	245
Interest expense	-	-	75	78
Total expenses	662	673	617	532
Excess (deficiency)	\$ 68	\$ 9	\$ (110)	\$ (99)

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets during the current year as compared to the prior year as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Revenues				
Program revenues				
Charges for services	\$ 74	\$ 67	\$ 450	\$ 390
Operating grants and contributions	101	104	-	-
Capital grants and contributions	-	-	17	-
General revenues				
Property taxes	420	366	-	-
State shared revenues	117	119	-	-
Unrestricted investment earnings	6	6	9	9
Miscellaneous	<u>13</u>	<u>23</u>	<u>31</u>	<u>34</u>
Total revenues	731	685	507	433
Expenses				
General government	74	74	-	-
Public safety	306	298	-	-
Public works	242	283	-	-
Health and welfare	7	7	-	-
Recreation and cultural	3	2	-	-
Debt service	5	4	-	-
Sewer system	-	-	256	211
Water system	<u>-</u>	<u>-</u>	<u>361</u>	<u>321</u>
Total expenses	<u>637</u>	<u>668</u>	<u>617</u>	<u>532</u>
Change in net assets	<u>\$ 94</u>	<u>\$ 17</u>	<u>\$ (110)</u>	<u>\$ (99)</u>

The Village's Funds

Our analysis of the Village's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. Major funds for the fiscal year ended March 31, 2008 include the General Fund and the Major Street and Local Street Funds.

The General fund pays for most of the Village's governmental services. The primary services include police protection services and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes and state shared revenues.

VILLAGE OF COLON

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

As shown in the required supplemental information, the Village budgeted an increase of 40,535 in the original budget and an increase of \$79,399 in the amended budget. Actual operating results ended up as an increase of \$76,733.

The original budget was amended to reflect a decrease in expenditures of \$17,701.

The actual results ended the fiscal year within \$2,666 compared to the amended budget.

Capital Assets and Debt Administration

During the year ended March 31, 2008, the total capital assets of the Village increased by \$22,681 for motor vehicle equipment and \$86,396 for water system improvements which was paid for with operating funds. The capital assets of the Village decreased by \$22,113 for the disposal of motor vehicle equipment, \$10,425 for sewer system disposals and \$117,865 for water system disposals.

During the year ended March 31, 2008, the total debt obligations of the Village decreased by principal payments of \$104,409. Total debt obligations at March 31, 2008 amounted to \$2,182,304.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF COLON
STATEMENT OF NET ASSETS
MARCH 31, 2008

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
ASSETS			
Cash and investments	\$ 512,713	\$ 344,002	\$ 856,715
Receivables, net	72,373	58,902	131,275
Internal balances	6,971	(6,971)	-
Prepaid and other assets	11,789	5,194	16,983
Restricted assets	-	66,573	66,573
Capital assets - net	<u>128,365</u>	<u>4,454,228</u>	<u>4,582,593</u>
Total assets	732,211	4,921,928	5,654,139
LIABILITIES			
Accounts payable	69,505	-	69,505
Accrued and other liabilities	1,280	19,502	20,782
Debt obligations:			
Due within one year	9,995	95,000	104,995
Due in more than one year	<u>68,654</u>	<u>2,008,655</u>	<u>2,077,309</u>
Total liabilities	<u>149,434</u>	<u>2,123,157</u>	<u>2,272,591</u>
NET ASSETS			
Invested in capital assets, net of related debt	49,716	2,350,573	2,400,289
Restricted:			
Debt service	-	18,908	18,908
Water system maintenance	-	47,665	47,665
Road maintenance	177,205	-	177,205
Other purposes	3,922	-	3,922
Unrestricted	<u>351,934</u>	<u>381,625</u>	<u>733,559</u>
Total net assets	<u>\$ 582,777</u>	<u>\$ 2,798,771</u>	<u>\$ 3,381,548</u>

See accompanying notes to financial statements

VILLAGE OF COLON
STATEMENT OF ACTIVITIES
MARCH 31, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 73,538	\$ 59,427	\$ -	\$ -
Public safety	306,124	9,921	1,429	-
Public works	242,230	4,479	100,019	-
Health and welfare	6,864	-	-	-
Recreation and cultural	3,096	-	-	-
Interest on long-term debt	<u>4,897</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	636,749	73,827	101,448	-
Business-type activities:				
Sanitary sewer	255,645	154,652	-	-
Water	<u>361,538</u>	<u>295,702</u>	<u>-</u>	<u>16,596</u>
Total business-type activities	<u>617,183</u>	<u>450,354</u>	<u>-</u>	<u>16,596</u>
Total primary government	<u>\$ 1,253,932</u>	<u>\$ 524,181</u>	<u>\$ 101,448</u>	<u>\$ 16,596</u>

General revenues:
Property taxes
State shared revenues
Unrestricted investment earnings
Miscellaneous

Total general revenues

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
\$ (14,111)	\$ -	\$ (14,111)
(294,774)	-	(294,774)
(137,732)	-	(137,732)
(6,864)	-	(6,864)
(3,096)	-	(3,096)
<u>(4,897)</u>	<u>-</u>	<u>(4,897)</u>
(461,474)	-	(461,474)
-	(100,993)	(100,993)
<u>-</u>	<u>(49,240)</u>	<u>(49,240)</u>
-	(150,233)	(150,233)
(461,474)	(150,233)	(611,707)
419,597	-	419,597
117,172	-	117,172
5,958	9,273	15,231
<u>13,128</u>	<u>30,628</u>	<u>43,756</u>
<u>555,855</u>	<u>39,901</u>	<u>595,756</u>
94,381	(110,332)	(15,951)
<u>488,396</u>	<u>2,909,103</u>	<u>3,397,499</u>
<u>\$ 582,777</u>	<u>\$ 2,798,771</u>	<u>\$ 3,381,548</u>

FUND FINANCIAL STATEMENTS

VILLAGE OF COLON

GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2008

	General Fund	Major Street Fund	Local Street Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 300,738	\$ 39,225	\$ 19,853	\$ 359,816
Accounts receivable	905	265	-	1,170
Due from other governmental units	38,519	11,562	21,122	71,203
Due from other funds	8,022	-	-	8,022
Prepaid expenditures	<u>7,692</u>	<u>174</u>	<u>174</u>	<u>8,040</u>
Total assets	<u>\$ 355,876</u>	<u>\$ 51,226</u>	<u>\$ 41,149</u>	<u>\$ 448,251</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 69,505	\$ -	\$ -	\$ 69,505
Accrued liabilities	1,180	-	100	1,280
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	70,685	-	100	70,785
FUND BALANCE				
Reserved for police training	893	-	-	893
Reserved for drug enforcement	3,029	-	-	3,029
Reserved for road maintenance	84,930	-	-	84,930
Unreserved, undesignated	<u>196,339</u>	<u>51,226</u>	<u>41,049</u>	<u>288,614</u>
Total fund balance	<u>285,191</u>	<u>51,226</u>	<u>41,049</u>	<u>377,466</u>
Total liabilities and fund balance	<u>\$ 355,876</u>	<u>\$ 51,226</u>	<u>\$ 41,149</u>	<u>\$ 448,251</u>

See accompanying notes to financial statements

VILLAGE OF COLON
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2008

Total governmental fund balances \$ 377,466

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the funds.

Governmental capital assets	\$ 171,923	
Less accumulated depreciation	<u>(65,727)</u>	106,196

Certain liabilities are not due and payable in
the current period and therefore are not
reported in the funds.

Notes payable	(78,649)
---------------	----------

Internal service funds are used by management
to charge the costs of certain activities to
individual funds. The assets and liabilities
of the internal service funds are reported with
governmental activities.

Net assets of the internal service funds	<u>177,764</u>
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Net assets of governmental activities	<u><u>\$ 582,777</u></u>
---------------------------------------	--------------------------

See accompanying notes to financial statements

VILLAGE OF COLON

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2008

	General Fund	Major Street Fund	Local Street Fund	Total Governmental Funds
REVENUE				
Taxes	\$ 392,880	\$ -	\$ 26,717	\$ 419,597
Licenses and permits	9,921	-	-	9,921
State grants	118,601	65,546	31,121	215,268
Charges for services	59,427	-	-	59,427
Fines and forfeitures	4,479	-	-	4,479
Interest	4,073	565	138	4,776
Other	<u>4,949</u>	<u>6,420</u>	<u>5,111</u>	<u>16,480</u>
Total revenue	594,330	72,531	63,087	729,948
EXPENDITURES				
Legislative	21,638	-	-	21,638
General government	51,828	-	-	51,828
Public safety	322,415	-	-	322,415
Public works	97,450	52,966	91,814	242,230
Health and welfare	6,864	-	-	6,864
Recreation and cultural	3,096	-	-	3,096
Debt service	<u>14,306</u>	<u>-</u>	<u>-</u>	<u>14,306</u>
Total expenditures	<u>517,597</u>	<u>52,966</u>	<u>91,814</u>	<u>662,377</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	76,733	19,565	(28,727)	67,571
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	15,000	15,000
Transfers to other funds	<u>-</u>	<u>(15,000)</u>	<u>-</u>	<u>(15,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>(15,000)</u>	<u>15,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	76,733	4,565	(13,727)	67,571
FUND BALANCE - BEGINNING OF YEAR	<u>208,458</u>	<u>46,661</u>	<u>54,776</u>	<u>309,895</u>
FUND BALANCE - END OF YEAR	<u>\$ 285,191</u>	<u>\$ 51,226</u>	<u>\$ 41,049</u>	<u>\$ 377,466</u>

See accompanying notes to financial statements

VILLAGE OF COLON
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

Net change in fund balances - total governmental funds	\$ 67,571
--------------------------------------------------------	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	22,681
Depreciation expense	(10,066)

Loan proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets.

Proceeds from debt obligations	-
Principal payments on debt obligations	9,409

Internal service funds are used by management to charge the cost of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

Net change from internal service funds related to governmental activities	<u>4,786</u>
---------------------------------------------------------------------------	--------------

Change in net assets of governmental activities	\$ <u><u>94,381</u></u>
-------------------------------------------------	-------------------------

See accompanying notes to financial statements

**VILLAGE OF COLON
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
MARCH 31, 2008**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
ASSETS				
CURRENT ASSETS				
Cash	\$ 185,661	\$ 17,283	\$ 202,944	\$ 152,897
Investments	141,058	-	141,058	-
Accounts receivable	22,648	36,254	58,902	-
Due from other funds	44,073	-	44,073	-
Prepaid and other assets	<u>3,100</u>	<u>2,094</u>	<u>5,194</u>	<u>3,749</u>
Total current assets	396,540	55,631	452,171	156,646
NONCURRENT ASSETS				
Restricted assets	-	66,573	66,573	-
Capital assets, net of depreciation	<u>986,794</u>	<u>3,467,434</u>	<u>4,454,228</u>	<u>22,169</u>
Total noncurrent assets	<u>986,794</u>	<u>3,534,007</u>	<u>4,520,801</u>	<u>22,169</u>
Total assets	1,383,334	3,589,638	4,972,972	178,815
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	-	95,000	95,000	-
Accounts payable	-	-	-	-
Accrued and other liabilities	102	19,400	19,502	-
Due to other funds	<u>6,971</u>	<u>44,073</u>	<u>51,044</u>	<u>1,051</u>
Total current liabilities	7,073	158,473	165,546	1,051
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>-</u>	<u>2,008,655</u>	<u>2,008,655</u>	<u>-</u>
Total liabilities	<u>7,073</u>	<u>2,167,128</u>	<u>2,174,201</u>	<u>1,051</u>
NET ASSETS				
Invested in capital assets, net of related debt	986,794	1,363,779	2,350,573	22,169
Restricted for maintenance and repair	-	47,665	47,665	-
Restricted for debt service	-	18,908	18,908	-
Unrestricted	<u>389,467</u>	<u>(7,842)</u>	<u>381,625</u>	<u>155,595</u>
Total net assets	<u>\$1,376,261</u>	<u>\$1,422,510</u>	<u>\$2,798,771</u>	<u>\$ 177,764</u>

See accompanying notes to financial statements

VILLAGE OF COLON
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES,
 AND CHANGES IN NET ASSETS
 YEAR ENDED MARCH 31, 2008

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
OPERATING REVENUE				
Charges for services	\$ 154,652	\$ 295,702	\$ 450,354	\$ 77,985
OPERATING EXPENSES				
Operating and administrative	165,154	100,549	265,703	58,468
Depreciation	<u>90,491</u>	<u>186,198</u>	<u>276,689</u>	<u>15,913</u>
Total operating expenses	<u>255,645</u>	<u>286,747</u>	<u>542,392</u>	<u>74,381</u>
OPERATING INCOME (LOSS)	(100,993)	8,955	(92,038)	3,604
NONOPERATING REVENUE (EXPENSES)				
Rental income	8,000	13,755	21,755	-
Investment income	8,261	1,012	9,273	1,182
Other revenue	3,700	5,173	8,873	-
Interest expense	<u>-</u>	<u>(74,791)</u>	<u>(74,791)</u>	<u>-</u>
Total nonoperating revenue (expense)	<u>19,961</u>	<u>(54,851)</u>	<u>(34,890)</u>	<u>1,182</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(81,032)	(45,896)	(126,928)	-
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	102,154	102,154	-
Transfers to other funds	(102,154)	-	(102,154)	-
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>16,596</u>	<u>16,596</u>	<u>-</u>
CHANGE IN NET ASSETS	(183,186)	72,854	(110,332)	4,786
NET ASSETS - BEGINNING OF YEAR	<u>1,559,447</u>	<u>1,349,656</u>	<u>2,909,103</u>	<u>172,978</u>
NET ASSETS - ENDING OF YEAR	<u>\$1,376,261</u>	<u>\$1,422,510</u>	<u>\$2,798,771</u>	<u>\$ 177,764</u>

See accompanying notes to financial statements

**VILLAGE OF COLON
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2008**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Cash flows from operating activities				
Receipts from customers	\$ 156,072	\$ 292,910	\$ 448,982	\$ -
Receipts for internal services	-	-	-	77,985
Payments to employees and suppliers	<u>(102,374)</u>	<u>(159,450)</u>	<u>(261,824)</u>	<u>(53,307)</u>
Net cash provided (used) by operating activities	53,698	133,460	187,158	24,678
Cash flows from non-capital financing activities				
Other receipts	12,000	18,929	30,929	-
Transfers from (to) other funds	<u>(102,154)</u>	<u>102,154</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	(90,154)	121,083	30,929	-
Cash flows from capital and related financing activities				
Principal paid on debt	-	(95,000)	(95,000)	-
Interest paid on debt	-	(75,048)	(75,048)	-
Acquisition of capital assets	-	(86,396)	(86,396)	-
Receipt of capital grant	<u>-</u>	<u>16,596</u>	<u>16,596</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	-	(239,848)	(239,848)	-
Cash flows from investing activities				
Interest received on investments	8,261	1,012	9,273	1,182
Purchase of investment	<u>(5,525)</u>	<u>-</u>	<u>(5,525)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>2,736</u>	<u>1,012</u>	<u>3,748</u>	<u>1,182</u>
Net increase (decrease) in cash	(33,720)	15,707	(18,013)	25,860
Cash and Cash Equivalents - Beginning of Year	<u>219,381</u>	<u>68,149</u>	<u>287,530</u>	<u>127,037</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 185,661</u></u>	<u><u>\$ 83,856</u></u>	<u><u>\$ 269,517</u></u>	<u><u>\$ 152,897</u></u>

See accompanying notes to financial statements

VILLAGE OF COLON
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS - Continued
 YEAR ENDED MARCH 31, 2008

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (100,993)	\$ 8,955	\$ (91,810)	\$ 3,604
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	90,491	186,198	276,461	15,913
(Increase) decrease in:				
Accounts receivable	1,420	(2,792)	(1,372)	-
Other current assets	348	234	582	421
Due from other funds	58,081	12	58,093	6,705
Increase (decrease) in:				
Accounts payable	-	-	-	-
Accrued liabilities	(390)	(302)	(692)	(189)
Due to other funds	4,741	(58,845)	(54,104)	(1,776)
Net cash provided by (used for) operating activities	<u>\$ 53,698</u>	<u>\$ 133,460</u>	<u>\$ 187,158</u>	<u>\$ 24,678</u>

See accompanying notes to financial statements

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Colon conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to villages. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the Village the option of electing to apply FASB pronouncements issued after November 30, 1989. The Village has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the Village are discussed below.

Reporting Entity

The Village of Colon operates a Council-President form of government and provides the following services as authorized by its charter: public safety (police, fire and inspections), highways and streets, sanitation, parks and recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, GASB 14, these financial statements present the Village (the primary government) and its component units, entities for which the Village is considered to be financially accountable. There are no component units to be included in these financial statements.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Village as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling-up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Village and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Village.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the Village or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- * Any fund the Village elects to include as a major fund.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The Village reports the following major funds:

General Fund - The general fund is the general operating fund of the Village. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Major Street Fund - To account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of major streets within the Village.

Local Street Fund - To account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of local streets within the Village.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Enterprise Funds

Sewage Disposal System Fund - To account for user charges and for operating expenses and debt service of the Village's sewer system.

Water Supply System Fund - To account for user charges and for operating expenses and debt service of the Village's water system.

The following is a description of two major categories and various fund types within those categories into which the funds are grouped:

Governmental Fund - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Village considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the governmental fund types of the Village:

General Fund - The general fund is the general operating fund of the Village. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's enterprise funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the proprietary fund types of the Village:

Enterprise Funds - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Internal Service Funds - Internal service funds are used to record the financing of goods or services provided by the Village to other departments and funds or to other governmental units on a cost reimbursement basis.

Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The Village adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- * On or about February 1, the Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted to obtain taxpayer comments.
- * On or about April 1, the budget is legally enacted through passage of resolution.
- * The Village President is authorized to transfer budgeted amounts within departments.
- * The budget for the general fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- * Appropriations for the general fund and special revenue funds lapse at the end of the fiscal year.
- * Budgeted amounts are as originally adopted or as amended by the Village Council.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government or federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets and Depreciation - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	Depreciable <u>Life-Years</u>
Land improvements	15-40
Streets	15-20
Utility systems	30-50
Buildings and improvements	15-50
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Property Taxes - The Village's property taxes are levied as an enforceable lien on property as of December 1. Village taxes are levied on the following July 1 and are payable without penalty through September 16. Real property taxes not collected as of March 1 are turned over to St. Joseph County for collection. The County advances the Village 100% for delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the Village's treasurer. The Village's property taxes levied on July 1 provide the revenue for the current fiscal year.

The assessed and state equalized taxable value of real and personal property located in the Village totaled \$27,092,291. The Village's general operating levy for the year was based on a millage rate of 11.1065.

Compensated Absences - It is the Village's policy to not pay for unused vacation or sick days and not to allow accumulation of unpaid days. Therefore, no current or long-term liability has been accrued.

Fund Equity - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS

The Village's deposits and investments are included on the balance sheet under the following classifications:

	<u>Primary Government</u>
Statement of Net Assets:	
Cash and investments	\$ 856,715
Restricted assets	<u>66,573</u>
Total	<u>\$ 923,288</u>
Deposits and Investments:	
Bank deposits (checking accounts and savings accounts)	\$ 752,230
Certificates of deposit	<u>171,058</u>
Total	<u>\$ 923,288</u>

Deposits - The deposits of the Village were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$1,022,534. Of that amount, approximately \$330,000 was covered by federal depository insurance and \$692,534 was uninsured and uncollateralized.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution it deposits Village Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 97 percent due from other governments, 2 percent accounts receivable, and 1 percent accrued interest receivable. Business-type activities receivables are 100 percent due from customers.

Accounts receivable in the governmental activities and the business-type activities are reported net of an allowance for uncollectible accounts of -0-.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at March 31, 2008:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
General	\$ 8,022	Sewer	\$ 6,971
		Motor Pool	<u>1,051</u>
			8,022
Sewer	44,073	Water	44,073
	<u> </u>		<u> </u>
Totals	<u>\$ 52,095</u>		<u>\$ 52,095</u>

The Due From/To Other Fund balances resulted from temporary loans to cover cash short falls in a given fund and from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Transfers consisted of the following for the year ended March 31, 2008:

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
Sewer	\$ 102,154	Water	\$ 102,154
Major Street	<u>15,000</u>	Local Street	<u>15,000</u>
Total	<u>\$ 117,154</u>		<u>\$ 117,154</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2008, was as follows:

	Balance April 1, 2007	Additions	Disposals	Balance March 31, 2008
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 13,600	\$ -	\$ -	\$ 13,600
Capital assets, being depreciated:				
Buildings and improvements	95,263	-	-	95,263
Machinery and equipment	310,103	-	1,055	309,048
Vehicles	<u>59,437</u>	<u>22,681</u>	<u>21,058</u>	<u>61,060</u>
Subtotal	464,803	22,681	22,113	465,371
Accumulated depreciation				
Buildings and improvements	21,620	1,905	-	23,525
Machinery and equipment	272,021	15,913	1,055	286,879
Vehicles	<u>53,099</u>	<u>8,161</u>	<u>21,058</u>	<u>40,202</u>
Subtotal	<u>346,740</u>	<u>25,979</u>	<u>22,113</u>	<u>350,606</u>
Net capital assets being depreciated	<u>118,063</u>			<u>114,765</u>
Net capital assets	<u>\$ 131,663</u>			<u>\$ 128,365</u>

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 5 - CAPITAL ASSETS - Continued

	Balance April 1, 2007	Additions	Disposals/ Transfers	Balance March 31, 2008
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 38,841	\$ -	\$ -	\$ 38,841
Capital assets, being depreciated:				
Sewage disposal system	3,111,558	-	10,425	3,101,133
Water supply system	<u>4,431,858</u>	<u>86,396</u>	<u>117,865</u>	<u>4,400,389</u>
Subtotal	7,543,416	86,396	128,290	7,501,522
Accumulated depreciation				
Sewage disposal system	2,034,273	90,491	10,425	2,114,339
Water supply system	<u>903,463</u>	<u>186,198</u>	<u>117,865</u>	<u>971,796</u>
Subtotal	<u>2,937,736</u>	<u>276,689</u>	<u>128,290</u>	<u>3,086,135</u>
Net capital assets being depreciated	<u>4,605,680</u>			<u>4,415,387</u>
Net capital assets	<u>\$ 4,644,521</u>			<u>\$ 4,454,228</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		Business-type activities:	
General government	\$ 417	Sanitary Sewer	\$ 90,491
Public safety	9,504	Water	<u>186,198</u>
Public works	<u>16,058</u>		
Total	<u>\$ 25,979</u>	Total	<u>\$ 276,689</u>

VILLAGE OF COLON

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended March 31, 2008:

	Balance April 1, 2007	Additions	Reductions	Balance March 31, 2008	Current Portion
Governmental Activities					
Note payable	\$ 24,425	\$ -	\$ 7,754	\$ 16,671	\$ 8,127
Note payable	<u>63,633</u>	<u>-</u>	<u>1,655</u>	<u>61,978</u>	<u>1,868</u>
	88,058	-	9,409	78,649	9,995
Business-Type Activities					
Revenue bonds	765,000	-	10,000	755,000	10,000
Revenue bonds	<u>1,433,655</u>	<u>-</u>	<u>85,000</u>	<u>1,348,655</u>	<u>85,000</u>
	<u>2,198,655</u>	<u>-</u>	<u>95,000</u>	<u>2,103,655</u>	<u>95,000</u>
Total Primary Government Long-Term Debt	<u>\$ 2,286,713</u>	<u>\$ -</u>	<u>\$ 104,409</u>	<u>\$ 2,182,304</u>	<u>\$ 104,995</u>

Long-term debt payables at March 31, 2008, consisted of the following individual issues:

Governmental Activities

Note payable to bank, yearly payments of \$8,892, including interest at 4.60%, final payment December 1, 2009, secured by fire truck \$ 16,671

Note payable to bank, monthly payments of \$365 including interest at 4.75%, until January 11, 2008. Monthly payments of \$451 including interest at 5.80% after January 11, 2007, final payment of \$54,235 due January 26, 2012, secured by real estate 61,978

Total Governmental Activities \$ 78,649

Business-Type Activities

2000 Water Supply System USA Revenue Bonds approved in the amount of \$805,000, payable in annual installments of \$5,000 to \$45,000 beginning October 1, 2001 through October 1, 2040, interest at 5.125%, payable semi-annually \$ 755,000

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 6 - LONG-TERM DEBT - Continued

2000 Water Supply System DWRP Revenue Bonds approved in the amount of \$2,085,000, payable in annual installments of \$80,000 to \$130,000 beginning April 1, 2004 through April 1, 2022, interest at 2.5%, payable semi-annually	<u>1,348,655</u>
Total Business-Type Activities	<u>2,103,655</u>
Total Primary Government Long-Term Debt	<u>\$ 2,182,304</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of March 31, 2008, including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 9,996	\$ 4,313	\$ 14,309
2010	10,523	3,827	14,350
2011	2,097	3,316	5,413
2012	<u>56,033</u>	<u>2,669</u>	<u>58,702</u>
Total	<u>\$ 78,649</u>	<u>\$ 14,125</u>	<u>\$ 92,774</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 95,000	\$ 72,410	\$ 167,410
2010	100,000	69,773	169,773
2011	100,000	67,010	167,010
2012	105,000	64,248	169,248
2013	105,000	61,360	166,360
2014-2018	595,000	260,594	855,594
2019-2023	448,655	174,455	623,110
2024-2028	110,000	131,713	241,713
2029-2033	140,000	100,450	240,450
2034-2038	175,000	61,244	236,244
2039-2040	<u>130,000</u>	<u>13,581</u>	<u>143,581</u>
Total	<u>\$ 2,103,655</u>	<u>\$ 1,076,838</u>	<u>\$ 3,180,493</u>

VILLAGE OF COLON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 7 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 8 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the Village President and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Village were adopted on a fund level basis.

During the year ended March 31, 2008, the Village incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

NONE

NOTE 9 - RELATED PARTY TRANSACTIONS

The Village purchases fuel, oil, etc. from a service station owned by the Village President. The total purchases for the year ended March 31, 2008 were \$21,551. At March 31, 2008 accounts payable to the service station was \$2,123.

NOTE 10- RETIREMENT PLAN

Effective January 1, 2001, the Village established a defined contribution retirement plan. Effective January 1, 2006, the Village changed the retirement plan to a IRC Section 457 Deferred Compensation Plan. The Plan is administered by Waddell & Reed Financial Services. All employees are eligible after the second year of employment. The Village contributes 6 percent of the employees' compensation for the plan year while the employee is a participant. For the year ended March 31, 2008, pension expense was \$11,270. The employee contributions were \$5,253.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF COLON

REQUIRED SUPPLEMENTAL INFORMATION

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
REVENUES				
Taxes	\$ 388,700	\$ 391,743	\$ 392,880	\$ 1,137
Licenses and permits	8,330	9,921	9,921	-
State grants	120,070	123,073	118,601	(4,472)
Charges for services	53,165	59,493	59,427	(66)
Fines and forfeitures	5,400	4,289	4,479	190
Interest	2,757	4,081	4,073	(8)
Other	<u>2,500</u>	<u>9,485</u>	<u>4,949</u>	<u>(4,536)</u>
Total revenues	580,922	602,085	594,330	(7,755)
EXPENDITURES				
Legislative	21,073	21,927	21,638	289
General government	53,664	51,581	51,828	(247)
Public safety	332,445	323,919	322,415	1,504
Public works	110,211	100,995	97,450	3,545
Health and welfare	6,864	6,864	6,864	-
Recreation and cultural	3,030	3,094	3,096	(2)
Debt service	<u>13,100</u>	<u>14,306</u>	<u>14,306</u>	<u>-</u>
Total expenditures	<u>540,387</u>	<u>522,686</u>	<u>517,597</u>	<u>5,089</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	40,535	79,399	76,733	(2,666)
FUND BALANCE - Beginning of year	<u>208,458</u>	<u>208,458</u>	<u>208,458</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 248,993</u>	<u>\$ 287,857</u>	<u>\$ 285,191</u>	<u>\$ (2,666)</u>

VILLAGE OF COLON

REQUIRED SUPPLEMENTAL INFORMATION

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

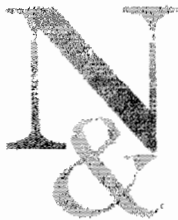
YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
State grant	\$ 66,000	\$ 60,500	\$ 65,546	\$ 5,046
Interest	375	565	565	-
Other	<u>6,800</u>	<u>6,860</u>	<u>6,420</u>	<u>(440)</u>
Total revenues	73,175	67,925	72,531	4,606
EXPENDITURES				
Public works	<u>57,009</u>	<u>52,930</u>	<u>52,966</u>	<u>(36)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	16,166	14,995	19,565	4,570
OTHER FINANCING (USES)				
Transfer to other funds	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES	1,166	(5)	4,565	4,570
FUND BALANCE - BEGINNING OF YEAR	<u>46,661</u>	<u>46,661</u>	<u>46,661</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 47,827</u>	<u>\$ 46,656</u>	<u>\$ 51,226</u>	<u>\$ 4,570</u>

VILLAGE OF COLON

REQUIRED SUPPLEMENTAL INFORMATION
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
Taxes	\$ -	\$ 26,717	\$ 26,717	\$ -
State grant	32,000	32,000	31,121	(879)
Interest	375	375	138	(237)
Other	<u>4,850</u>	<u>4,850</u>	<u>5,111</u>	<u>261</u>
Total revenues	37,225	63,942	63,087	(855)
EXPENDITURES				
Public works	<u>77,114</u>	<u>92,808</u>	<u>91,814</u>	<u>994</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(39,889)	(28,866)	(28,727)	139
OTHER FINANCING SOURCES				
Transfers from other funds	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	(24,889)	(13,866)	(13,727)	139
FUND BALANCE - BEGINNING OF YEAR	<u>54,776</u>	<u>54,776</u>	<u>54,776</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 29,887</u>	<u>\$ 40,910</u>	<u>\$ 41,049</u>	<u>\$ 139</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Village Council
Village of Colon

Norman & Paulsen, P.C.

Certified Public Accountants

127 W Chicago Road

Sturges, MI 49091

269.261.3225

Fax 269.651.5146

E-mail

norman@npeaccounting.com

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Three Rivers, MI 49092

269.263.8641

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We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Colon (the "Village"), as of and for the year ended ended March 31, 2008, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting In planning and performing our audit, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

Donald L. Paulsen, CPA

Patrick J. Morahan, CPA

Bruce S. A. Gosting, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerre T. Norman (1941-1982)

Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due primarily to the related negative impact on cash funds available to the Village, the hiring of accounting personnel capable of writing the Village's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The Village's response to the findings identified in our audit is described above. We did not audit the Village's response and, accordingly, we express no opinion on it.

Finding 2007-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to decreased cash flows of the Village, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Village's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Village Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The Village's response to the findings identified in our audit is described above. We did not audit the Village's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007 1 and Finding 2007 2 to be a material weakness.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. These instances are referenced as 2007-A.

Finding 2007-A: The Water Fund Bond Agreement requires the establishment and funding levels for the Bond Reserve and the Repair, Replacement and Improvement Fund. Funding level requirements are not currently being achieved and the Village is not in compliance with the Bond Agreement.

Response: Village Management is reviewing the water rate structure to determine what changes can be made in order to generate the cash flow needed to fund the Bond Reserve and the Repair, Replacement and Improvement Fund.

The Village's response to the findings identified in our audit is described above. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, others within the organization, the Village Council and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Norman J. Paulson, P.C.

July 21, 2008



REQUIRED COMMUNICATION TO THE VILLAGE OF COLON
IN ACCORDANCE WITH PROFESSIONAL STANDARDS

July 21, 2008

To the Village Council
Village of Colon, Michigan

Norman & Paulsen, P.C.

Chartered Accountants

407 W. Chicago Road

Saugus, MI 49091

269.651.3228

Fax 269.651.5146

E-mail

normanpaulsen@charter.net

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Colon for the year ended March 31, 2008, and have issued our report thereon dated July 21, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Colon are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Mark J. Stowson, CPA

John T. Norman (1941-1982)

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 21, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the Village of Colon, Michigan for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

The relatively small number of people involved in the accounting functions of the Village makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process.

Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot, by definition, be considered a part of the government's *internal* controls. This condition was caused by the Village's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of management, Council, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Norman J. Paulson, P.C.